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1 **I. Introduction**

2 **Q. Are you the same Neil S. Fisher who sponsored direct testimony in this proceeding?**

3 A. Yes.

4

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. I will respond to arguments and recommendations made by various interveners regarding
7 the power procurement methods and the supply product portfolios used in Duquesne
8 Light's proposed default service plan ("Default Service Plan," "Plan," or "DSP VII Plan").
9 First, I will respond to the competing proposals of the Pennsylvania Office of Consumer
10 Advocate ("OCA") and the Retail Energy Supply Association ("RESA") regarding the
11 term lengths of the products in the default service supply portfolio for the Residential¹
12 class, as well as RESA's proposal to shorten the term lengths of the Small Commercial
13 and Industrial ("Small C&I") default service supply products. Second, I will respond to
14 the OCA's recommendation to increase the amount of time between the initial solicitations
15 for Residential default service supply products, specifically for the supply products that
16 have delivery periods that begin on June 1, 2015. Third, I will respond to the OCA's
17 proposal to include spot pricing in the Residential default service supply products. Fourth,
18 I will address the recommendation of the Office of Small Business Advocate ("OSBA") to
19 continue procuring six-month default service supply products for the Medium Commercial
20 and Industrial ("Medium C&I") procurement class. Fifth, I will respond to RESA's

¹ While the Residential class also includes Lighting customers, in this testimony I often refer to this class in aggregate as the Residential class.

1 recommendation that Duquesne Light bid out spot market priced service for the Large
2 Commercial and Industrial (“Large C&I”) default service customers. Sixth, I will respond
3 to the Citizens For Pennsylvania’s Future (“PennFuture”) recommendation to procure
4 Alternative Energy Credits (“AECs”) with a base amount fulfilled through ten and twenty
5 year supply contracts based on a conservative estimate of Duquesne Light’s load for those
6 years.

7
8 **Q. Please summarize your major conclusions.**

9 A. The following are my major conclusions:

- 10 1. Each of the competing proposals of the OCA and RESA regarding the term lengths
11 of the products in the default service supply portfolio for the Residential class
12 should be rejected.
- 13 2. RESA’s proposal to shorten the term lengths of the Small C&I default service
14 supply products should be rejected.
- 15 3. Duquesne Light has already filed a separate proposal that would increase the
16 amount of time between the solicitations for Residential default service supply
17 products, which I believe is responsive to the OCA’s desire for greater separation
18 in the timing of the initial solicitations.
- 19 4. The OCA’s proposal to include spot pricing in the Residential default service
20 supply products should be rejected.

1 5. The Company is willing to consider the OSBA's recommendation to continue
2 procuring six-month default service supply products for the Medium C&I customer
3 class in order to maintain existing price stability benefits, but has proposed in DSP
4 VII to transition from the six-month fixed price supply rates offered in DSP VI to
5 rates that will adjust every three months based on quarterly procurements of three-
6 month products that are not laddered in an effort to make rates more responsive to
7 changes in market prices.

8 6. RESA's proposal to bid out spot market priced service for the Large C&I default
9 service customers is unnecessary and should be rejected.

10 7. PennFuture's recommendation to procure AECs through ten and twenty year
11 supply contracts should be rejected.

12 Each of these conclusions is supported in detail in the subsequent sections of my rebuttal
13 testimony.

14
15 **II. Each of the Competing Proposals of RESA and the OCA Regarding the Term**
16 **Lengths of the Products in the Residential Default Service Supply Portfolio Should**
17 **Be Rejected, and RESA's Proposal to Shorten the Small C&I Product Term Lengths**
18 **Should Be Rejected**

19 **Q. Please describe the portfolio of default service supply products, and the**
20 **corresponding frequency of rate changes, for the Residential customers in Duquesne**
21 **Light's proposed Plan?**

1 A. As I explained in Duquesne Light Statement No. 3, the Company proposes in DSP VII to
2 adopt a Residential default service supply portfolio consisting of laddered twelve-month
3 fixed-price full requirements (“FPFR”) products, after an initial six-month FPFR product
4 is procured to facilitate the transition into this product procurement cycle.² Solicitations
5 will be held semiannually, and Residential rates will transition from the twelve-month
6 fixed-price supply rates offered in DSP VI to supply rates that will adjust every six
7 months.

8
9 **Q. How do the OCA’s and RESA’s recommendations regarding the Residential product**
10 **term lengths differ from Duquesne Light’s proposal?**

11 A. The OCA recommends a Residential portfolio consisting of generally longer-term
12 products, and RESA recommends a Residential portfolio consisting of generally shorter-
13 term products. Specifically, the OCA suggests transitioning the supply portfolio over time
14 to a mix of supply products in which 50% of the products have twenty-four-month
15 delivery periods and 50% of the products have twelve-month delivery periods.³ In direct
16 contrast, RESA proposes a “transition plan to a greater reliance on shorter-term
17 products.”⁴ RESA’s portfolio recommendation would transition the supply portfolio over
18 time to a mix of supply products in which 50% of the products have twelve-month
19 delivery periods and 50% of the products have three-month delivery periods. The figure
20 below compares the various intervener proposals:

² Duquesne Light Statement No. 3, Direct Testimony, pp. 13-14.

³ OCA Statement No. 1, Direct Testimony, pp. 11-13.

⁴ RESA Statement No. 1, Direct Testimony, p. 14.

1 **Figure 4 Duquesne Light’s Proposed Residential Product Term Lengths by the End**
 2 **of DSP VII Period Represents a “Middle Ground” Between the RESA and**
 3 **OCA Proposals**

	RESA Proposal	Duquesne Light Proposal	OCA Proposal⁵
3-Month Products	50%		
12-Month Products	50%	100%	50%
24-Month Products			50%

4
 5 **Q. What is clear from this comparison of the various interveners’ proposals regarding**
 6 **the Residential default service product term lengths?**

7 A. It is quite clear that Duquesne Light’s proposal represents a “middle ground” between the
 8 proposals of these two stakeholders. Given this observation, as well as for other reasons
 9 that I explain below, I believe that Duquesne Light’s proposed Residential default service
 10 supply portfolio strikes an appropriate balance of competing considerations regarding
 11 default service in the Company’s service area at this time, and that the competing
 12 proposals offered by the OCA and RESA should not be adopted at this time.

13

⁵ As I discuss later in my rebuttal testimony, the OCA also recommends that the 12- and 24-month supply contracts include a 5% spot component, arguing that the inclusion of a significant percentage of 24-month fixed-price full requirements contracts in lieu of 100% reliance on 12-month contracts more than compensates for the minor increase in price variability that would result from the inclusion of a 5-percent spot price element. OCA Statement No. 1, Direct Testimony, p.12.

1 **Q. What are the other reasons why the OCA’s proposed Residential default service**
2 **supply product term lengths should not be adopted at this time?**

3 A. OCA witness Estomin’s argument in support of the injection of twenty-four-month
4 products in the Residential supply portfolio is that this approach would increase the level
5 of price stability inherent in the Company’s proposed product mix, thereby providing
6 associated benefits for default service customers. I agree with Dr. Estomin that the
7 inclusion of twenty-four-month products could increase price stability for Residential
8 customers. However, Duquesne Light is mindful of the Commission’s apparent preference
9 that relatively longer-term products not be included in proposed default service supply
10 portfolios at this time. Specifically, as the Commission stated in its *Default Service End-*
11 *State Order*⁶ regarding upcoming default service plans, “Should legislative efforts fall
12 short, we will consider an alternative shorter-term product that is more reflective of market
13 conditions than the currently-offered default service products.”⁷ Duquesne Light’s
14 currently-offered (DSP VI) Residential default service supply portfolio consists entirely of
15 twelve-month supply products. Given this fact and the Commission’s stated preference,
16 Duquesne Light’s DSP VII Plan does not include the use of longer-term contracts than
17 those supply products already in place in DSP VI. Rather, during the DSP VII supply
18 period, the Company recommends that Residential rates transition from the twelve-month
19 fixed-price supply rates offered in DSP VI to supply rates that will adjust every six months
20 based on an initial six-month supply contract followed by laddered twelve-month
21 contracts. While rates will adjust more frequently and will be more market responsive to

⁶ *Investigation of Pennsylvania’s Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952 (Order entered February 15, 2013) (“*Default Service End-State Order*”).

⁷ *Default Service End-State Order*, p. 41.

1 changes in market prices than in DSP VI (as I describe later in my testimony), the
2 Company has proposed to ladder the twelve-month contracts in order to provide rate
3 stability benefits for customers. This avoids the need to replace 100 percent of the
4 Residential and Small C&I default service supply during a short period of time.

5
6 **Q. What is RESA witness Hudson’s rationale for shortening the term lengths of the**
7 **supply products in the Residential customers’ default service supply portfolios?**

8 A. Mr. Hudson explains that his recommendation to shorten the delivery periods of the
9 products is designed to “transition to a more market-based and market-responsive default
10 service supply portfolio.”⁸ He contends that his proposed portfolio is even more “market
11 responsive,” so it would better support “sustainable” retail competition, and therefore it
12 would better satisfy the “least cost” requirement of Act 129 than Duquesne Light’s
13 proposal.⁹

14
15 **Q. Does RESA also use this rationale to justify its proposal to shorten the product term**
16 **lengths in the Small C&I default service supply portfolio?**

17 A. Yes. RESA proposes that the Small C&I supply product term lengths be identical to those
18 that RESA proposes for the Residential class, and it justifies its recommendations for both
19 classes simultaneously. As such, the reasons that I provide below for rejecting RESA’s
20 proposal to shorten the Residential supply product term lengths also justify rejecting

⁸ RESA Statement No. 1, Direct Testimony, p. 3.

⁹ RESA Statement. No. 1, Direct Testimony, pp. 3, 5-12.

1 RESA’s proposal to shorten the Small C&I supply product term lengths. Furthermore, it is
2 important to note that the OSBA supports Duquesne Light’s supply portfolio for the Small
3 C&I class.¹⁰

4
5 **Q. Mr. Fisher, how do you respond to RESA’s first assertion that its recommended**
6 **portfolio, with its shorter product delivery periods, is “more market-based” than the**
7 **portfolio that Duquesne Light has proposed?**¹¹

8 A. RESA attempts to justify its recommended changes to the Duquesne Light procurement
9 portfolio in part as a “transition to a more market-based” default service supply portfolio.¹²
10 RESA’s assertion is without merit and should be disregarded. Duquesne Light’s DSP VII
11 Plan does rely on market-based supply products. Under Duquesne Light’s DSP VII Plan,
12 competitive electricity generation suppliers (“EGSs”) will compete against market-based
13 default service rates, as the default service rates will be based on the prices for supply
14 products obtained through competitive solicitations in which multiple bidders compete to
15 sell the products solely on the basis of price. A longer-term product obtained through a
16 competitive solicitation is just as “market-based” as a shorter-term product obtained
17 through a competitive solicitation.

18
19 **Q. Can you provide an example of why RESA’s view of what constitutes a “market-**
20 **based” supply product is flawed?**

¹⁰ OSBA Statement No. 1, Direct Testimony, p. 2.

¹¹ RESA Statement No. 1, Direct Testimony, pp. 3 and 13.

¹² RESA Statement No. 1, Direct Testimony, p. 8.

1 A. Yes. Suppose that someone walks into a bank to obtain a mortgage. Using Mr. Hudson’s
2 logic, that person would only obtain a “market-based” rate for her mortgage if she agreed
3 to a very short-term mortgage, with rates that change frequently. Per Mr. Hudson’s logic,
4 if the person were to obtain a 30-year, 15-year, 10-year, or even a 5-year fixed-rate
5 mortgage, then that person would not be paying a market-based rate for her mortgage.
6 Clearly, this is incorrect. All of these mortgage products can be readily obtained in a
7 competitive market. All are “market-based” products and depend on market conditions at
8 the time they are procured.

9

10 **Q. Does Mr. Hudson acknowledge your point that both long-term and short-term**
11 **contracts can be considered “market-based” if derived through a competitive**
12 **procurement process?**

13 A. Yes. He admits in discovery that both long-term and short-term contracts can be
14 considered “market-based.” RESA also acknowledges in its discovery response that the
15 phrases “market-based” and “market responsive” were used interchangeably by RESA and
16 were intended to convey the same concept.¹³ RESA’s language is confusing. Clearly,
17 “market-based” and “market responsive” are not necessarily the same concept. As RESA
18 admits, long-term contracts can be considered “market-based,” and at the same time, may
19 not be “market responsive.” It simply is not correct to claim that RESA’s proposed
20 portfolio transitions to a “more market-based” supply portfolio. Duquesne Light relies on
21 a market-based supply portfolio.

¹³ RESA discovery response to Duquesne Light Set I-5.

1 In contrast, RESA appears to have a very narrow definition of market-based supply
2 products, requiring that they be short-term, market responsive, and reflect current market
3 prices. Taken to its extreme, RESA’s position implies that only short-term market
4 products can fulfill the requirements of Act 129, since according to RESA, only short-term
5 market products will support sustainable retail competition and will produce the least-cost
6 outcomes for customers. RESA’s extreme interpretation of Act 129 contradicts the plain
7 language of Act 129, which requires a “prudent mix” of contracts and does not prescribe
8 that only short-term contracts can be considered prudent or market-based.

9
10 **Q. Has the Commission already opined on RESA’s interpretation of the “least cost”**
11 **requirement of Act 129, which RESA relies upon to justify its recommendation to**
12 **shorten the Residential and Small C&I supply product term lengths?**

13 A. Yes. The Commission has previously expressed its disagreement with RESA’s premise.
14 Specifically, in its *Second Default Service Rulemaking Order*, the Commission stated:

15 Finally, we disagree with RESA’s assertion that the “least cost” standard
16 mandates that a default service plan be reasonably likely to result in a
17 “market-reflective and market-responsive” service rate that recovers all
18 costs related to providing default service. We interpret this standard, not
19 contained in either the Competition Act or Act 129, to mean a preference
20 for short term and spot price supplies which ignore both the Act 129
21 concerns of price stability and a “prudent mix” of products. We do not
22 believe that adoption of RESA’s suggested standard is consistent with the
23 “least cost” standard contained in Act 129 and would not adequately protect
24 retail customers from volatility and risks inherent in the energy market.
25 Price stability benefits are very important to some customer groups, so an
26 interpretation of “least cost” that mandates subjecting all default service

1 customers to significant price volatility through general reliance on short
2 term pricing is inconsistent with Act 129's objectives.¹⁴

3
4 **Q. Based on this guidance provided by the Commission, did RESA consider the**
5 **ramifications with respect to “volatility and risks” associated with its**
6 **recommendations to shorten the term lengths of the supply products in the**
7 **Residential and Small C&I customers’ default service supply portfolios?**

8 A. No. When asked in discovery whether Mr. Hudson believes that having a greater degree
9 of price stability in the residential default service rate should be considered a relative
10 benefit when assessing the merits of the different default service plans proposed in this
11 proceeding, he fails to express an opinion about what he believes. Rather, he simply
12 acknowledges that the Commission may choose to consider price stability as one of the
13 factors used to evaluate a default service procurement plan.¹⁵ RESA's omission of any
14 such consideration is especially troubling, not only given the Commission's guidance, but
15 also given the possibility of future market turbulence as evidenced by the recent market
16 price events that resulted from the Winter 2014 Polar Vortex.¹⁶ Furthermore, it has been
17 my experience that small customers and their consumer advocates generally support
18 reasonably priced, stable and reliable default service and tend to encourage the use of
19 longer-term supply products (than those endorsed by RESA) procured at different points in
20 time in order to provide more stable default service rates. Electric rate stability has long

¹⁴ *Default Service and Retail Electric Markets*, Docket No. L-2009-2095604 (Order entered October 4, 2011) (“*Second Default Service Rulemaking Order*”), p. 41 (emphasis added).

¹⁵ RESA discovery response to Duquesne Light Set I-14.

¹⁶ Extreme cold weather, natural gas pipeline constraints, and generator unavailability contributed to record electricity prices in January 2014 in Pennsylvania.

1 been recognized as a desirable feature, especially for those small customers who for
2 whatever reason do not elect service from a competitive retail supplier, and it is important
3 for reasons related to affordability, budgeting, and planning.
4

5 **Q. Is there reason to believe that the 2013-2014 Polar Vortex is a fluke and unlikely to**
6 **impact customers again during the term of DSP VII?**

7 A. Ironically, ConEdison Solutions, the firm that employs Mr. Hudson recently released a
8 white paper entitled the “2013-2014 Winter Polar Vortex,” which states:

9 However, experts suggest that we are likely to experience high prices over
10 the next few winters as well, with structural relief at least a few years
11 away. Any proposed project to provide relief by reducing pipeline
12 constraints will likely take years to complete, so consumers exposed to
13 energy markets over the next few winters should expect higher-than
14 average prices during those months.¹⁷

15 ConEdison Solutions also remarked that the record high prices experienced this winter
16 were accompanied by significant increases in customer usage, magnifying the financial
17 impact on customers, reporting that, “[t]his winter, consumers on-average used around
18 30% more electricity than they had historically used. Much of that usage happened on the
19 coldest days when prices were at their peak.”¹⁸ Furthermore, ConEdison Solutions reports
20 that a number of smaller, less-financially stable competitive suppliers went out of business
21 as a result of this winter’s events – and customers served by such suppliers lost their EGS
22 contracts and were dropped back to their utility’s default service.¹⁹ This situation

¹⁷ *2013-2014 Winter Polar Vortex*, ConEdison Solutions, July 2014, p. 3.

¹⁸ *2013-2014 Winter Polar Vortex*, ConEdison Solutions, July 2014, p. 3.

¹⁹ *2013-2014 Winter Polar Vortex*, ConEdison Solutions, July 2014, p. 4.

1 highlights the continued importance of default service supply rate stability for Residential
2 and Small C&I customers.

3
4 **Q. Mr. Fisher, didn't the Commission propose in the *Default Service End State Order*²⁰**
5 **that Residential and Small C&I customers be supplied entirely with 90-day**
6 **products?**

7 A. Yes, it did. However, as I noted in my direct testimony, the Commission also concluded
8 that some of the changes it proposed in the *Default Service End State Order*, including a
9 general directive to use such short-term products, may require amendments to existing
10 law.²¹ The Commission therefore determined that it would be “well-served to ensure that
11 the General Assembly is supportive of our overall policy direction on matters as important
12 as the retail market for electricity.”²²

13
14 **Q. Would adoption of RESA's recommendations to shorten the term lengths of the**
15 **supply products in the Residential and Small C&I customers' default service supply**
16 **portfolios expose default service customers to unnecessary rate instability and risks?**

17 A. Yes. The generally shorter-term products would unnecessarily increase these customers'
18 exposure to substantial price fluctuations, resulting in less stable rates over time. In fact,
19 analysis of historical market price movements indicates that the degree of rate instability

²⁰ *Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952 (Order entered February 15, 2013) (“*Default Service End State Order*”).

²¹ Duquesne Light Statement No. 3, Direct Testimony, p. 27. (citing *Default Service End State Order*, pp. 16, 41, 43, 45-46, and 48.)

²² *Default Service End State Order*, pp. 45-46.

1 for Residential and Small C&I default service customers would double if the type of
2 supply portfolio to which Mr. Hudson recommends transitioning were approved.
3 Furthermore, actual future outcomes could exceed those that would have been experienced
4 in the past, as there certainly are potential outcomes even more extreme than what has
5 already occurred in recent years. In short, the doubling of the rate instability and risks that
6 would result from the type of Residential and Small C&I supply portfolio to which Mr.
7 Hudson recommends transitioning is significant.

8
9 **Q. Are there any other ways in which Residential and Small C&I default service**
10 **customers would be exposed to unnecessary rate instability and risks if the**
11 **Commission were to adopt RESA’s proposal to shorten the delivery periods of the**
12 **Residential and Small C&I default service supply products?**

13 A. Yes. Unlike Duquesne Light’s Plan, RESA’s proposed plan would cut short the supply
14 products such that none of the supply products have delivery periods extending beyond the
15 end of the DSP VII period on May 31, 2017. Consequently, RESA’s proposed plan would
16 subject Residential and Small C&I customers to a “hard stop” with regard to their supply
17 products at the end of the DSP VII period, requiring all of the Residential and Small C&I
18 default service supply for delivery starting in June 2017 to be procured in a short period of
19 time near the end of the DSP VII period. For example, if Duquesne Light were forced to
20 purchase 100% of the default service supply this past winter (associated with market-
21 related events in Pennsylvania during and around the time of the “Polar Vortex” in
22 January) this would have exposed customers to unnecessary rate instability and risks. This
23 illustrates some of the risks associated with RESA’s proposed “hard stop” approach.

1 Fortunately for Residential and Small C&I customers, Duquesne Light’s approved
2 Residential and Small C&I supply portfolios were designed to mitigate the risks to
3 customers from this type of situation. Specifically, Duquesne Light’s plan did not involve
4 procuring a large cross-section of the necessary supply during any given short period of
5 time, nor did it include quantities of spot purchases. Under Duquesne Light’s proposal,
6 only 50 percent of the necessary supply would be procured during any given short period
7 of time. In contrast, under RESA’s proposed plan, which includes a simultaneous
8 termination of all of the Residential and Small C&I supply contracts on May 31, 2017, all
9 of Duquesne Light’s Residential and Small C&I default service supply for delivery
10 starting in June 2017 would need to be procured in a short period of time near the end of
11 the DSP VII period, thereby fully exposing customers to unnecessary rate instability and
12 market price risks.

13 RESA argues that supply should not be purchased “too far” in advance of delivery
14 and it also argues that all default service supply should come to a “hard stop” at the end of
15 the DSP VII period. Taken together, RESA’s recommendations would expose Residential
16 and Small C&I customers to unnecessary rate instability and risks. This rate instability
17 and “Polar Vortex” type risk can be mitigated with ladder purchases, like those
18 proposed by Duquesne Light, and will allow for a smooth transition from one default
19 service period to the next.

1 **Q. Do you agree with RESA’s suggestion that implementing a “hard stop” for all of the**
2 **default service supply products on May 31, 2017 is necessary to facilitate possible and**
3 **uncertain changes in default service policy?**²³

4 A. No. As explained by Duquesne Light witness Habberfield, Duquesne Light’s proposed
5 DSP VII already includes considerable procurement flexibility to accommodate the
6 possibility of future changes in the default service supply approach and the possibility of
7 new retail market initiatives.²⁴ Duquesne Light’s proposed DSP VII incorporates this
8 flexibility in several ways. First, the default service supply product portfolios for the
9 Large C&I and Medium C&I classes²⁵ do not include any supply products with delivery
10 periods that extend beyond May 31, 2017, the end of the DSP VII period. As a result, the
11 Commission can easily adopt a similar plan or a very different plan for the period starting
12 June 1, 2017, without the need to face situations involving pre-existing default service
13 supply products for these customer classes with deliveries that extend beyond the DSP VII
14 period.

15 Second, the solicitations for Residential and Small C&I supply products with
16 delivery periods that extend beyond May 31, 2017 (the end of the DSP VII period) are not
17 held until September 2016. As a result, there is a significant amount of time before new
18 supply commitments extending beyond the DSP VII period are made, should changes need
19 to be made due to legislative or regulatory developments. In the meantime, these
20 solicitations remain scheduled because they allow for the option for a fairly seamless

²³ RESA Statement No. 1, Direct Testimony, p. 16.

²⁴ Duquesne Light Statement No. 2, Direct Testimony, p. 10.

²⁵ These customer classes represent about 65 percent of the total system load in Duquesne Light’s service area.

1 continuation of the laddered procurement cycle as Duquesne Light transitions from DSP
2 VII to DSP VIII, and they avoid subjecting Residential and Small C&I customers to a
3 “hard stop” with regard to their supply products at the end of the DSP VII period. This
4 helps to avoid the need to replace a large portion (e.g., 100%) of default service supply in
5 a short period of time at the end of the DSP VII period.

6 Third, the proposed overhang of supply continues only for a six-month period.
7 Duquesne Light is not proposing the use of any long-term (e.g., 4 years or longer) supply
8 commitments. Therefore, if the Commission and/or Pennsylvania legislature
9 fundamentally change the nature of Electric Distribution Company (“EDC”) default
10 service in the future, such changes could be phased in within a relatively short period of
11 time.

12 Fourth, Duquesne Light’s proposed DSP VII provides flexibility because it relies
13 on full requirements supply products and it does not involve the procurement of any new
14 fixed-cost supply commitments that do not vary with load, like block energy products.
15 This is especially valuable given the significant customer migration activity that already
16 has been observed in Duquesne Light’s service area, and given any uncertainty about
17 future retail market initiatives which could further affect customer migration.

18 Furthermore, Mr. Habberfield explains that the Company’s DSP VII proposal to
19 include contracts with delivery periods extending beyond the end of the DSP VII period
20 appears to be consistent with the Commission's reasoning in its DSP VI Order.²⁶

²⁶ Duquesne Light Statement No. 2, Direct Testimony, pp. 10-11.

1 While I appreciate that RESA may prefer the elimination of EDC default service
2 altogether or the implementation of an entirely different form of EDC default service in
3 the future, I do not believe it is in the Residential and Small C&I customers' interests to
4 completely "stop" all supplies and "start" purchases all over again at the conclusion of
5 every default service period every two years. As a matter of public policy, I believe that a
6 smooth transition from one default service plan to the next is preferable, and "hard stops"
7 should be avoided. To the extent the Commission and/or Pennsylvania Legislature want to
8 implement a different default service structure going forward, this can be readily
9 accomplished within the framework proposed by Duquesne Light.

10
11 **Q. In addition to the "hard stop" proposed by RESA at the end of the DSP VII Plan,**
12 **does RESA's recommended supply portfolio for Residential and Small C&I**
13 **customers include a "hard stop" within the DSP VII period?**

14 A. Yes. RESA's proposal for Residential and Small C&I customers would require the
15 Company to procure 100% of the default service supply in March 2016 for contracted
16 supply to be delivered beginning June 1, 2016.²⁷ This also would expose Residential and
17 Small C&I default service customers to unnecessary rate instability and risks if RESA's
18 proposal to shorten the delivery periods of the default service supply products is adopted.

19

²⁷ See RESA discovery response to Duquesne Light I-3, RESA Attachment RJH-DLC-1.

1 **Q. RESA witness Hudson claims that adoption of his recommendations to shorten the**
2 **delivery periods of the supply products will better support sustainable retail**
3 **competition.²⁸ Do you agree?**

4 A. No, Mr. Hudson and I disagree on this issue. The primary basis of his portfolio
5 recommendations is his belief that shorter-term market contracts are necessary to support
6 sustainable retail competition. Mr. Hudson claims that generally speaking it is necessary
7 for default service rates to be market-responsive, and without it, sustainable retail
8 competition cannot exist.²⁹ Mr. Hudson voices a specific concern that, if the products in
9 the default service supply portfolios are not shortened as he suggests, then market prices
10 may diverge from default service rates for longer periods of time, and the potential for
11 such divergences would discourage EGS participation in the market, leaving customers
12 with “few or no competitive options” even in situations in which default service supply
13 rates are high compared to contemporaneous market prices.³⁰ Mr. Hudson’s claim is
14 unsubstantiated and without merit.

15
16 **Q. Does actual market evidence support Mr. Hudson’s suggestion that Duquesne Light’s**
17 **proposed default service supply portfolios will be deficient in supporting retail**
18 **competition?**

19 A. No. Market evidence in Duquesne Light’s service area does not support Mr. Hudson’s
20 premise that short-term supply contracts are necessary to support sustainable retail

²⁸ RESA Statement. No. 1, Direct Testimony, pp. 3, 15.

²⁹ RESA Statement. No. 1, Direct Testimony, pp. 9-10.

³⁰ RESA Statement No. 1, Direct Testimony, pp. 9-10.

1 competition. This proceeding addresses Duquesne Light's seventh default service plan.
2 The Company has a long history with default service. Duquesne Light has offered the
3 majority of its customers fixed price default service supply rates for many years. During
4 this time, Duquesne Light has achieved some of the highest levels of customer load
5 switched in the United States and has consistently been among the top electric utility
6 service areas in the United States in terms of percentage of total load receiving service
7 from a competitive supplier.³¹

8
9 **Q. Does RESA provide any actual market evidence to support its claim that further**
10 **shortening the term lengths of the default service products is necessary to support**
11 **sustainable retail competition?**

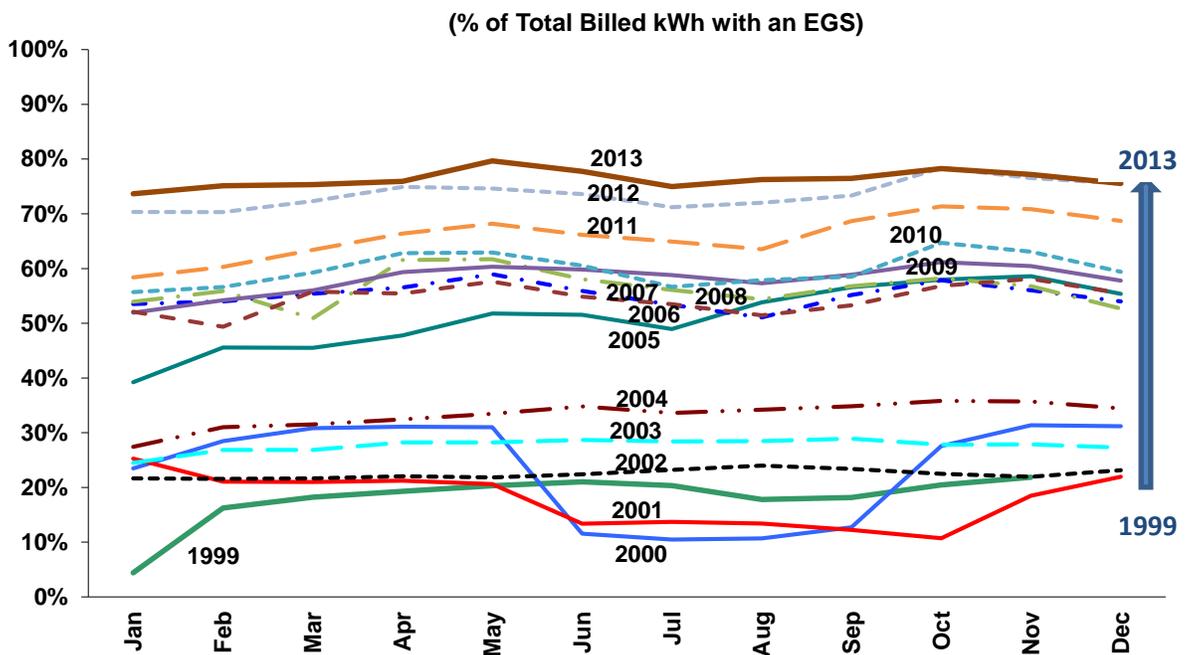
12 A. No. The fundamental premise underlying RESA's supply portfolio recommendations is
13 unsubstantiated. There is no convincing evidence that further shortening the term lengths
14 of the default service products would better facilitate the development of the competitive
15 retail market. In fact, the greater price stability provided by Duquesne Light's proposed
16 Residential supply product portfolio will facilitate retail competition by providing a more
17 predictable and stable default service rate, making it easier for EGSs to market savings off
18 of the default service rate, and making it easier for customers to compare EGS offers with
19 default service rates and more confidently make retail supply decisions.

³¹ Duquesne Light Statement No. 3, Direct Testimony, pp. 4-12.

1 Q. What has been the experience with customer switching in Duquesne Light's service
2 area, while offering the majority of its customers fixed default service supply rates?

3 A. Duquesne Light has consistently been among the top utilities in the United States in terms
4 of percentage of total load shopping with an EGS. Further, customer switching levels
5 have increased in Duquesne Light's service area since the time of its restructuring, as
6 illustrated in the figure below.

7 **Figure 5 Customer Switching Levels Have Increased Over Time in Duquesne Light's**
8 **Service Area**



9
10

11 As competitive markets have expanded both within and outside Pennsylvania, Duquesne
12 Light has consistently been among the top utilities in the country in terms of percentage of
13 total load shopping with an EGS while offering the majority of its customers fixed default
14 service supply rates. In sum, Duquesne Light's retail access program has been relatively

1 successful and has resulted in steady increases in customer switching levels over many
2 years.³²

3
4 **Q. Mr. Fisher, did Mr. Hudson claim that fixed default service rates would impede the**
5 **development of retail competition in a prior default service proceeding?**

6 A. Yes. Mr. Hudson claimed in 2009 during the DSP V proceeding that Duquesne Light's
7 proposed and ultimately approved 29-month fixed rate "will impede the development of
8 retail competition in Duquesne's service territory."³³ Similar to his testimony in this
9 proceeding, RESA claimed that the long-term default service pricing structure would deter
10 retail suppliers from entering the Duquesne Light Residential market. RESA asserted that
11 this structure created substantial business risk for retail suppliers because there could be
12 periods of time when they cannot compete. Mr. Hudson claimed that "[t]his risk will most
13 likely deter new suppliers from entering the residential market."³⁴ RESA continues to
14 make similar claims now despite the fact that the Company has proposed to rely on
15 considerably shorter-term (12-month) supply products and transition to much more
16 frequent (every six month) rate changes in DSP VII.

³² I do recall the problems caused by EGS "doughnut" contracts in 2000 and to a smaller extent in 2001, whereby EGSs sent customers back onto EDC default service for the summer months (commonly referred to as the "beach syndrome") when market prices were relatively high and then switched customers back to EGS service in the fall when market prices were relatively low. This problem ultimately led to customer switching rules in Pennsylvania, which several years later were removed.

³³ Direct Testimony of Richard Hudson, *Petition of Duquesne Light for approval of Default Service Plan for the Period January 1, 2011 through May 31, 2013 (DSP V)*, Docket P-2009-2135500, RESA Statement No. 1, December 21, 2009, p. 12.

³⁴ *Ibid.*, p. 12.

1 **Q. Did Mr. Hudson’s assertion in the DSP V proceeding turn out to be correct, namely**
2 **that retail suppliers would not enter the Residential market due to the adoption of**
3 **the proposed default service pricing structure?**

4 A. No. During the DSP V period (January 2010 through May 2013), new retail suppliers
5 entered Duquesne Light’s service area and customer switching to competitive suppliers
6 continued to increase as shown in Figure 5. During this time, the percentage of
7 Residential load being served by competitive suppliers grew to approximately 50%, which
8 was one of the highest residential customer switching percentages in the United States.
9 Contrary to RESA’s claims in this case, market data indicate that EGSs will enter markets
10 and serve customers when they are able to provide attractive service offerings for
11 customers, even if default service rates are fixed for reasonably prolonged periods of time
12 and regardless of the associated possibility of future divergences between default service
13 rates and contemporaneous market prices. In short, EGSs have proven to be very willing
14 to compete for customers when the default service supply portfolios have product term
15 lengths similar to, or even longer than, those proposed by Duquesne Light.

16 As shown in Figure 5 above, customer switching levels have increased over time in
17 Duquesne Light’s service area, and as shown in Figure 2 in my direct testimony, Duquesne
18 Light continues to be among the top electric utilities in the United States in terms of
19 percentage of total load switched.³⁵

20

³⁵ Duquesne Light Statement No. 3, Direct Testimony, p. 7.

1 **Q. Have other Pennsylvania EDCs experienced growth in customer switching while**
2 **relying on similar or longer-term default service supply products than those being**
3 **proposed by Duquesne Light in this proceeding?**

4 A. Yes. In PECO's first default service plan, the default service supply portfolio for
5 residential customers included a mix of 29-month, 24-month, 17-month, and 12-month
6 FPFRR supply products, some of which were procured over a year-and-a-half before
7 delivery of the product began. During that default service plan period, the percentage of
8 residential load in PECO's service area being served by EGSs grew from 0.2% to 34%,
9 and by the end of that default service plan period there were 70 EGSs serving PECO's
10 residential load.³⁶

11 Similarly, the most significant growth in PPL Electric Utilities Corporation's
12 ("PPL") residential customer switching occurred during 2010, when residential default
13 service customers were supplied through 12-month calendar year 2010 FPFRR products that
14 were procured over time during the three-year period leading up to the 2010 delivery
15 period. By the end of 2010, the percentage of PPL's residential load served by EGSs had
16 already reached approximately 40%,³⁷ making PPL's percentage one of the highest in the
17 United States.

18 Actual market evidence from Duquesne Light, PECO, and PPL clearly
19 demonstrates that EGSs will enter markets and serve customers when they are able to
20 provide attractive service offerings for customers, even if default service rates are fixed for

³⁶ Direct Testimony of Scott G. Fisher on behalf of PECO, *Petition Of PECO Energy Company for Approval of its Default Service Program for the Period from June 1, 2015 Through May 31, 2017*, Docket No. P-2014-2409362, March 10, 2014, pp. 37-38.

³⁷ Pennsylvania Office of Consumer Advocate, "Pennsylvania Electric Shopping Statistics – January 1, 2011."

1 reasonably prolonged periods of time. Contrary to Mr. Hudson’s claims, EGSs will not be
2 afraid to enter markets because they fear the prospect of some future “bust” cycle. There
3 is ample market evidence to rebut Mr. Hudson’s unsupported assertions that it is *necessary*
4 to have more market responsive default service pricing structures (i.e., shorter-term supply
5 products) than those proposed by Duquesne Light in DSP VII in order to support
6 sustainable retail competition.

7
8 **Q. Is it possible that maintaining the product term lengths that Duquesne Light has**
9 **proposed would better facilitate the development of the competitive retail market for**
10 **customers than would adopting RESA’s recommendation to shorten the term lengths**
11 **of Duquesne Light’s proposed default service supply products?**

12 A. Yes. The greater rate stability provided by Duquesne Light’s proposed Residential and
13 Small C&I supply product portfolios may better facilitate retail competition by providing a
14 more predictable and stable default service rate, making it easier for EGSs to market
15 savings off of the default service rate, and making it easier for customers to compare EGS
16 offers with default service rates and more confidently make retail supply decisions.

17
18 **Q. Have other EGSs also shared the view that greater default service rate stability may**
19 **better facilitate retail competition by providing a more predictable and stable default**
20 **service rate, making it easier for EGSs to market savings off of the default service**
21 **rate?**

1 A. Yes. In direct opposition to Mr. Hudson's unsubstantiated hypothesis that a default service
2 supply portfolio must include very short-term supply products in order to support
3 sustainable retail competition, some retail suppliers have argued that such a portfolio is not
4 likely to provide for a robust competitive retail market. Notably, the EGS Parties have
5 argued that a portfolio of longer-term FPFR products would “produce better results for
6 EGSs,” as it would provide default service customers with greater price stability, making it
7 easier for customers to compare EGS offers with default service rates:

8 If the Commission desires a robust and sustainable competitive market,
9 one that includes large and small EGSs, it must understand that its
10 proposed ninety (90) day procurement construct will do nothing to lower
11 barriers to market entry for an EGS...A modification to the ninety (90)
12 day approach, however, that will, in general, produce better results for
13 EGSs would be to eliminate the quarterly procurement process and adopt
14 an annual procurement model with annual price changes. A model that
15 employs annual procurement of fixed price products will eliminate the odd
16 variability of quarterly prices and reconciliation. This model would
17 provide default service customers with greater price stability, which would
18 be more comparable to the offers typically provided by EGSs in the
19 market place and would match market prices more closely than under the
20 current model while avoiding unnecessary volatility. The EGS Parties are
21 extremely skeptical that moving to a ninety (90) day procurement cycle
22 under today's market conditions will allow for the development of a robust
23 competitive market...Customers will not respond well to a quicker
24 cadence and are likely to return to default service on a more frequent
25 basis, if not permanently.³⁸

26 Similarly, during the Company’s DSP VI proceeding, Duquesne Light received support for
27 12-month term supply products from certain EGSs as a means to support retail

³⁸ Comments of Electric Generation Supplier Parties to Tentative Order, Docket No. I-2011-2237952 (*Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service*), December 10, 2012, pp. 7-8.

1 competition.³⁹ These arguments, advocated by other retail suppliers, directly contradict
2 Mr. Hudson’s primary hypothesis as to what type of default service supply portfolio will
3 better support retail competition. As a result, it is important to remember that Mr. Hudson
4 does not speak for all retail suppliers with regard to what course of action is best to support
5 retail competition.

6
7 **Q. How do you respond to RESA’s claim that for the Residential class, Duquesne**
8 **Light’s DSP VII proposal does not reflect a progression to a more market responsive**
9 **procurement mix because Duquesne Light will continue to rely almost exclusively on**
10 **12-month products?**⁴⁰

11 A. Similar to when RESA uses the term “market-based” that I addressed earlier in my rebuttal
12 testimony, RESA appears to have a very narrow definition of what constitutes a more
13 “market responsive” supply portfolio, choosing to focus only on the length of supply
14 products. RESA claims that a more market responsive procurement mix would be one that
15 incorporates shorter term default service supply products (e.g., 3-month and 6-month
16 products) as opposed to 12-month products.⁴¹ While I agree that this is one way to make a
17 supply portfolio more market responsive, it is not the only method. During the current
18 DSP VI period (June 2013 through May 2015), Duquesne Light transitioned to shorter-

³⁹ Direct Testimony of Thomas J. Butler on Behalf of Dominion Retail, Docket No. P-2012-2301664, Petition of Duquesne Light Company for Approval of Default Service Plan for the Period June 1, 2013 Through May 31, 2015, St. No. 1, pp. 3, 5-7. Direct Testimony of Tony C. Banks on Behalf of FirstEnergy Solutions, Inc., Docket No. P-2012-2301664, Petition of Duquesne Light Company for Approval of Default Service Plan for the Period June 1, 2013 Through May 31, 2015, St. No. 1, p. 3.

⁴⁰ RESA Statement. No. 1, Direct Testimony, pp. 12-13.

⁴¹ RESA discovery response to Duquesne Light Set I-11.

1 term, more market responsive pricing. Residential customers moved from fixed 29-month
2 to 12-month default service supply rates in DSP VI. The Company has proposed in its
3 DSP VII Plan to transition Residential rates from the twelve-month fixed-price supply
4 rates offered in DSP VI to supply rates that will adjust every six months. While it is
5 correct that the Company proposes to rely on annual supply contracts in both DSP VI and
6 DSP VII, the supply rates in DSP VII will be more responsive to market price changes in
7 that 50% of the default service supply will be procured every six months so that rates will
8 adjust more frequently (every six months instead of annually), reflecting directional
9 changes in market conditions more quickly than before. Contrary to RESA's position, I do
10 consider this change to be a progression to more market responsive pricing.

11
12 **Q. Can you further explain why you believe Duquesne Light's proposed Residential**
13 **default service proposal represents a progression to more market responsive pricing**
14 **contrary to RESA's position?**

15 A. Yes. In DSP VI, once the Residential default service supply rate is established, it is
16 essentially fixed for 12 months. That means if market prices rise by 20% shortly after the
17 time of procurement, the default service rates for Residential customers will not reflect this
18 market price movement until approximately 12 months later, at the beginning of the
19 delivery period of the products procured in the subsequent procurement. In DSP VII,
20 Residential default service customers will more quickly begin to experience changes in
21 market conditions as 50% of the supply will be replaced every six months. Consequently,
22 in this simple example, 50% of the supply would soon reflect the 20% increase in market
23 prices and more quickly be reflected in default service supply rates.

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Q. RESA also argues that, for the Small C&I class, Duquesne Light’s DSP VII Plan is actually a step backwards in terms of market responsiveness.⁴² How do you respond?

A. RESA states that Duquesne Light currently uses a mix of 12 and 6 month contracts, but plans to move exclusively to 12-month products by December 2015 to justify its position. Both the DSP VI and the proposed DSP VII delivery periods start with an initial six-month supply contract in order to start the contract laddering process in an effort to increase price stability for Small C&I customers. The only difference is that instead of coming to a “hard stop” with the use of one six-month contract at the end of the DSP VII period, Duquesne Light proposes to continue to offer Small C&I customers default service supply rates that adjust every six months based on laddered twelve-month contracts. Recently, the Company filed with the Commission for approval to extend by six months the contract term of the final Small C&I procurement under the DSP VI Plan, essentially making the DSP VI plan identical to the proposed DSP VII Plan.⁴³ For the reasons described earlier in my rebuttal testimony, the Company does not support the use of a “hard stop.” In my view, the Company has proposed the same default pricing structure for Small C&I customers, has not taken a step backwards, and actually has made an improvement with respect to the transition from one default service plan to the next. I do not believe it is in the Residential and Small C&I customers’ interests to completely “stop” all supplies and “start” purchases all over again at the conclusion of every default service period every two

⁴² RESA Statement. No. 1, Direct Testimony, p. 13.
⁴³ See Duquesne Light Petition filed on June 5, 2014 in Docket No. P-2012-2301664.

1 years. I believe a smooth transition from one default service plan to the next is preferable,
2 and “hard stops” should be avoided.

3
4 **III. Duquesne Light’s Separate Proposal Should Be Responsive to the OCA’s Desire for**
5 **Greater Separation in the Timing of the Initial Solicitations**

6 **Q. Please summarize OCA witness Estomin’s concern about the timing of the**
7 **procurement of power for deliveries beginning June 1, 2015.**

8 A. Dr. Estomin notes that under the Company’s DSP VII proposal, the procurement of power
9 for deliveries beginning June 1, 2015, the start of the Default Service Plan period, are
10 scheduled for the two months of February and March 2015. This means that two-thirds of
11 the first year’s power supply (and all of the supply for the initial six months) for
12 Residential default service customers would be procured within a two-month period. Dr.
13 Estomin argues that this exposes Residential default service customers to significant
14 market price risk because there is very little temporal diversification in the purchase of
15 these portfolio elements. Therefore, he recommends that the procurements be spread out
16 over not less than four months, and preferably more than four months.⁴⁴

17
18 **Q. What is your response?**

19 A. I share Dr. Estomin’s concern. This situation is due to the “hard stop” in DSP VI supply
20 products and results in the type of unnecessary risks to customers that I discussed earlier in

⁴⁴ OCA Statement No. 1, Direct Testimony, p. 14.

1 my testimony. In order to avoid the unnecessary exposure to potential market price
2 shocks, the Company recently filed a petition for approval to procure in October 2014 a
3 portion of the default service requirements of its Residential and Small C&I customers for
4 the first 6 months of the DSP VII period.⁴⁵ The proposal to procure 50% of the supply in
5 October 2014 would eliminate the February 2015 procurement and reduce the exposure to
6 adverse market-related events by avoiding the procurement of all of the default service
7 supply during a short period of time. Eliminating the February procurement also would
8 result in one less round of RFP results for review by the Commission since the Company
9 already must conduct a solicitation later this year under its DSP VI plan. I believe that
10 Duquesne Light's separate proposal should be responsive to the OCA's desire for greater
11 separation in the timing of the initial solicitations.

12
13 **IV. The OCA's Proposal to Include Spot Pricing in the Residential Default Service**
14 **Supply Products Should Be Rejected**

15 **Q. Please describe OCA witness Estomin's recommendation regarding the inclusion of a**
16 **spot market pricing component in the Residential default service supply products.**

17 A. Dr. Estomin recommends that "a small portion," specifically five percent, of the
18 Residential default service supply reflect spot market prices.⁴⁶ Under Dr. Estomin's
19 proposal, the full requirements products would be structured such that 95% of the
20 electricity provided would be supplied at the bid price, and the remaining 5% would reflect

⁴⁵ See Duquesne Light Petition filed on June 5, 2014 in Docket No. P-2012-2301664.

⁴⁶ OCA Statement No. 1, Direct Testimony, pp. 3, 11-14.

1 hourly spot market pricing.⁴⁷ In order to determine its default service rates, Duquesne
2 Light would need to estimate the going-forward cost of the spot market component, and
3 any mismatch between actual costs and revenues would be resolved through the
4 reconciliation mechanism.⁴⁸

5
6 **Q. What rationale does Dr. Estomin provide for his proposal to include spot market
7 priced supply in the Residential supply portfolio?**

8 A. Dr. Estomin provides two reasons for his proposal. First, he claims that “[i]nclusion of the
9 spot market component results in a portfolio that is more closely aligned to the “prudent
10 mix” language contained in Act 129, which specifies a combination of spot market, short-
11 term, and long-term contracts to meet Default Service supply obligations.”⁴⁹ Second, Dr.
12 Estomin contends that “...a portion of the supply priced at zonal LMPs by the suppliers is
13 consistent with the development of FRCs [full requirements contracts], since spot
14 purchases are invariably a component of the suppliers’ portfolios that make up the FRCs
15 [full requirements contracts].”⁵⁰

16
17 **Q. How do you respond to Dr. Estomin’s first argument, which is that spot market
18 priced supply in the Residential supply mix is needed to create a portfolio that is**

⁴⁷ OCA Statement No. 1, Direct Testimony, p. 13.

⁴⁸ OCA Statement No. 1, Direct Testimony, p. 13.

⁴⁹ OCA Statement No. 1, Direct Testimony, p. 13.

⁵⁰ OCA Statement No. 1, Direct Testimony, p. 13.

1 **more closely aligned to the “prudent mix” language contained in Act 129, which**
2 **specifies a diversity of supply products?**

3 A. Despite Dr. Estomin’s claims, an additional type of product component, such as a spot
4 priced component, is not required under Act 129, because having a diversity of products is
5 not the same as having a “prudent mix” of products as required by the Act. Instead, Act
6 129 requires that the “prudent mix” of products be designed to ensure the least cost to
7 customers over time, taking into account any benefits of price stability.⁵¹ In its Second
8 Default Service Rulemaking Order, the Commission recognized this fact:

9 PECO makes the important point that “diversity” of contracts should not be
10 confused with a “prudent mix” where full requirements contracts can
11 include significant mitigation risks for customers by ensuring fixed prices
12 regardless of congestion costs, usage patterns, weather and other factors.⁵²

13 Furthermore, in this order, the Commission explicitly acknowledged that the “prudent
14 mix” requirement does not require more than one type of supply product:

15 We do reject the positions of those parties that “prudent mix” be defined to
16 always require a specific mix or percentage of types of contract components
17 in each default service plan or a minimum of two types of products.⁵³

18 In sum, the Commission has already rejected the basis of Dr. Estomin’s argument, which
19 is that Act 129 requires that more than one type of product be included in a given customer
20 class’ default service supply portfolio.⁵⁴

⁵¹ 66 Pa. C.S. § 2807(e)(3.4), and Act 129 of 2008 (Preamble).

⁵² *Second Default Service Rulemaking Order*, p. 61.

⁵³ *Second Default Service Rulemaking Order*, p. 60.

⁵⁴ It is also noteworthy that the OCA does not include in its recommended Residential supply portfolio any long-term contracts (e.g., 4 years or longer). Presumably, the OCA does not believe that such products are required to more

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Q. How do you respond to Dr. Estomin’s second argument, which is that spot market priced supply in the Residential supply mix would be consistent with the development of full requirements products because spot purchases are invariably a component of the suppliers’ portfolios that make up the full requirements products?

A. Dr. Estomin’s argument is nonsensical. There is no reason for the default service products to be designed in such a way that the Commission is making guesses about the underlying supply portfolios of the default service product suppliers and trying to design the pricing of the default service products’ pricing structures to mimic the risks associated with those assumed underlying supplier portfolios. In fact, doing so would require customers to bear increased risks, rather than having the FPFR product suppliers bear them. As I discussed in my direct testimony, it is reasonable to assume that bidders in the proposed full requirements solicitations will consider the costs and risks associated with all forms of supply, and will reflect in their bid prices the benefits of any opportunity that they believe is the least-cost supply opportunity, including spot market purchases.⁵⁵ One of the benefits of the FPFR products that Duquesne Light has proposed and that it currently uses to serve Residential default service loads is that the suppliers of these products assume, manage, and cover the complicated supply costs and risks associated with the load requirements, while guaranteeing a fixed price for customers, rather than exposing customers to these risks. By injecting 5% spot pricing into the FPFR products, Dr. Estomin’s proposal would

closely align to the “prudent mix” language contained in Act 129. This appears internally inconsistent with the OCA’s rationale to include a small amount of spot market supply.

⁵⁵ Duquesne Light Statement No. 3, Direct Testimony, p. 16.

1 reduce the inherent risk-mitigation benefits to customers of the FPFR products.
2 Furthermore, it is quite clear that the risks of spot-based pricing, to which Dr. Estomin's
3 proposal would unnecessarily expose customers, can be great. Notably for example,
4 Duquesne Light recently witnessed unprecedented hourly spot market prices in its service
5 area, which resulted in the highest average monthly price both on a day-ahead and real-
6 time basis since the Company joined PJM in 2005. In fact, the average monthly spot
7 market price for the Duquesne zone in January 2014 was about double the average
8 monthly spot price over the January 2005 to June 2014 period.

9
10 **Q. Are there any other reasons why Dr. Estomin's proposal to include spot market**
11 **priced supply in the Residential supply mix should be rejected?**

12 A. Yes. Dr. Estomin's approach would needlessly increase administrative costs because it
13 would require frequent market price projections on the spot price component to be made
14 and incorporated into default service rates.

15 In addition, adoption of Dr. Estomin's proposal would result in greater risks of
16 significant deferred cost recovery balances and the associated adverse consequences for
17 customers and retail competition in general. This is contrary to the Commission's stated
18 desire to reduce the likelihood of over- and under-collections in EDC reconciliation
19 mechanisms so that the PTC more closely tracks market conditions.⁵⁶ When default
20 service customers are supplied entirely by FPFR products, as Duquesne Light has
21 proposed, instead of (in part or in whole) through spot pricing, there is little-to-no

⁵⁶ *Default Service End State Order*, p. 41.

1 uncertainty about the all-in cost to supply a megawatt-hour of load during the upcoming
2 rate period (assuming that all of the supply is procured for that period by the time that the
3 default service rate is set). As a result, rates can be set with the assurance that supply costs
4 will closely match default service revenues. This is not the case when a portion of the
5 default service supply portfolio involves a spot-priced component. When a spot-priced
6 component is included, as Dr. Estomin has proposed, default service rates must be set
7 based on the anticipated cost of default service supply, which inevitably will differ from
8 the true cost. The gaps between default service revenue and costs can result in larger over-
9 and under-collections in Duquesne Light's reconciliation mechanism, which can have
10 detrimental effects on both customers and retail competition in general. For example,
11 deferred cost recovery imbalances distort the default service rates against which EGSs
12 must compete. The recovery or refund of these balances must occur in future periods,
13 thereby resulting in unnecessary rate distortions in the future. Positive deferred cost
14 recovery balances must be financed by the EDC, and this in turn could adversely affect the
15 EDC's available credit capacity and/or its cost of financing. These costs of doing business
16 are ultimately passed on to customers. Substantial deferred cost recovery imbalances may
17 lead to higher administrative costs due to the additional burden of managing deferrals and
18 reconciliations. These administrative costs ultimately must be passed on to customers. If
19 Duquesne Light's default service provider role were terminated in the future, then positive
20 deferred cost balances would need to be collected from customers of the new default
21 service provider.

22 Under Duquesne Light's proposed DSP VII Plan, there will be very little
23 uncertainty about the default service supply costs on a dollars-per-megawatt-hour basis for

1 any given upcoming rate period at the time that the Residential default service retail rate
2 for that period is set. Therefore, it is reasonable to expect that the potential for significant
3 over- or under-collections is minimal under Duquesne Light's Plan. For all the reasons
4 described above, the OCA's proposal to include spot market priced supply in the
5 Residential supply mix should be rejected.

6
7 **V. The Company is Willing to Consider the OSBA's Recommendation to Continue**
8 **Procuring Six-month Default Service Supply Products for the Medium C&I**
9 **Customer Class**

10 **Q. Does Duquesne Light oppose OSBA's recommendation to continue procuring six-**
11 **month default service supply products for Medium C&I customers?**

12 A. No, as discussed in Duquesne Light witness Habberfield's rebuttal testimony, the
13 Company does not oppose the OSBA's recommendation to maintain the six-month, non-
14 laddered, full requirements supply contracts that are currently in place in DSP VI. The
15 OSBA's proposal would maintain the current level of price stability and would eliminate
16 the need for four additional RFPs, which would have occurred solely to procure supply for
17 the Medium C&I customer class during the DSP VII period.

18
19 **Q. Why did the Company propose in its DSP VII Plan to shorten the Medium C&I**
20 **default service supply contracts from six months to three months?**

21 A. The Company proposed in DSP VII to transition from the six-month fixed price supply
22 rates offered in DSP VI to rates that will adjust every three months based on quarterly

1 procurements of three-month products that are not laddered in an effort to make Medium
2 C&I rates more responsive to changes in market prices.

3
4 **Q. How do you respond to OSBA’s legal concern that it is premature for Duquesne**
5 **Light to effectively implement the Commission’s End State Order for those Medium**
6 **C&I customers with peak demands less than 100 kW, given the Commission’s stated**
7 **preference to pursue legislative amendments that clearly provide the authority to**
8 **approve default service plans consistent with the End-State Order?**⁵⁷

9 A. I am not an attorney, but the Company recognizes that approximately 70% of the Medium
10 C&I customer load in Duquesne Light’s service area is already switched to a competitive
11 supplier, and is conscious of the Commission’s general desire to move toward 90-day
12 procurements in the end-state. Since the Company expects that quarterly products will
13 expose default service customers to potentially greater price volatility, the Company was
14 cautious with the implementation of quarterly supply products in its DSP VII Plan,
15 limiting their use only for Medium C&I customers, many of whom have already switched
16 to a competitive retail supplier.

17 As I noted in my direct testimony, a key question for policymakers is how often
18 utility default service rates should adjust to changes in market prices. The optimal
19 frequency depends upon a number of factors, including customer sophistication, market
20 price volatility, the number of competitive service alternatives, what customers are
21 accustomed to, and the costs and benefits associated with exposing customers to greater

⁵⁷ OSBA Statement No. 1, Direct Testimony, pp. 5-7.

1 price volatility. Duquesne Light's Plan tailors its default service for each customer group
2 taking into account these considerations.

3
4 **VI. RESA's Proposal to Bid Out Spot Market Priced Service for the Large C&I Default**
5 **Service Customers is Unnecessary and Should be Rejected**

6 **Q. Do you believe it is appropriate in this case to adopt RESA's recommendation to**
7 **competitively bid out the spot market service for Large C&I customers?**

8 A. No. Duquesne Light arguably already has one of the best retail access programs in the
9 country for Large C&I customers. Duquesne Light was one of the first utilities in the
10 nation to offer hourly pricing default service to all customers with peak demands equal to
11 or greater than 300 kW, and still has one of the lowest kilowatt demand thresholds for
12 hourly price default service for Large C&I customers in the United States. The Company
13 has consistently been among the top ten utilities in the United States in terms of percentage
14 of Large C&I customer load shopping with a competitive supplier. As of June 2014, 96%
15 of the Company's Large C&I customer load has switched to an alternative supplier.⁵⁸
16 Therefore, it is difficult to justify the added time and administrative costs of developing an
17 RFP process in an effort to develop the retail market when Duquesne Light already has
18 one of the best retail market programs in the country for Large C&I customers.

19

⁵⁸ Furthermore, Mr. Habberfield notes in his rebuttal testimony that Large C&I customers that remain on default service have expressed to Duquesne Light in the past their desire to receive their power from Duquesne Light at PJM spot market prices, rather than through an alternative supplier.

1 **Q. Mr. Fisher, as a policy matter, do you oppose RESA’s recommendation to**
2 **competitively bid out the spot market service for Large C&I customers?**

3 A. No, but I do not think it is necessary or appropriate in this instance given the current
4 situation in Duquesne Light’s service area. In fact, when Duquesne Light initially
5 proposed Hourly Price Service (“HPS”) during its DSP III proceeding, the Company
6 proposed to rely on a competitive wholesale auction process, but the Company later agreed
7 to supply this service in response to the comments provided by Large C&I customers
8 (represented by the Duquesne Industrial Intervenors or “DII”) and its desire to have
9 Duquesne Light procure the supply directly from the PJM market. In that case, DII stated
10 that, “Duquesne’s proposal to offer Hourly Price Service (“HPS”) POLR rates for Large C&I
11 customers should be revised so that the HPS POLR rate reflects a spot market PJM rate for
12 energy, capacity and ancillary services. This type of HPS rate would not require an auction
13 or RFP since it is based on transparent prices obtained from PJM.” DII argued that because
14 all aspects of the HPS product “are based on readily-accomplished PJM transactions and
15 scheduling, Duquesne can administer the product rather than a third party.”⁵⁹

16
17 **Q. Are there other issues related to competitively bidding out Hourly Price Service?**

18 A. Yes, it is my understanding that other EDCs in Pennsylvania that have adopted this
19 approach require wholesale bidders to bid a “fixed price adder” to cover certain non-
20 energy costs, which may include ancillary services, AEPS compliance, capacity, and
21 administrative costs for an extended period of time (e.g., a 12-month delivery period).

⁵⁹ Direct Testimony of Stephen Baron on behalf of DII, Docket No. R-00032071, February 2004, pp. 9 and 20.

1 This fixed price adder is passed through to Large C&I customers. In contrast, Duquesne
2 Light obtains the HPS supply directly from PJM markets and passes through actual (day-
3 ahead energy, real-time ancillary services, and capacity) supply charges.⁶⁰ Thus,
4 Duquesne Light's HPS supply charges are arguably much more "market responsive" than
5 having a third party supplier fix certain supply charges far in advance of delivery.

6 Finally, it should be noted that under RESA's proposal the EDC must also recover
7 the cost of conducting the RFPs and still recover any administrative costs it incurs to
8 provide and bill for HPS.

9
10 **Q. What about RESA's concern about other Duquesne Light retail servicing costs that**
11 **Duquesne Light collects through an administratively set adder of \$4.49 per MWH?**

12 A. It is unclear from RESA's comments whether RESA has an opinion whether the Fixed
13 Retail Adder ("FRA") that is included in Duquesne Light's HPS rider is "too low" or "too
14 high," but RESA states that "[c]ompetitively bidding out the hourly price service would
15 add a degree of objectivity to this retail adder."⁶¹ As Duquesne Light witness Pfrommer
16 describes in his rebuttal testimony, Duquesne Light's administrative costs related to
17 providing HPS are largely tied to PJM interface and billing related costs that would remain
18 even if a third party provided supply for HPS and Duquesne Light continued to do the
19 billing and reconciliation. Duquesne Light witness Pfrommer discusses the support for
20 Duquesne Light's FRA in his rebuttal testimony.

⁶⁰ Duquesne Light Retail Tariff, Rider No. 9.

⁶¹ RESA Statement No. 1, Direct Testimony, p. 20.

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Q. What do you conclude with respect to the need to conduct a solicitation for HPS?

A. RESA’s proposal to bid out HPS for the Large C&I default service customers is not necessary or appropriate in this instance and should be rejected. Duquesne Light arguably already has one of the best retail access programs in the country for Large C&I customers in terms of customer switching and only a small portion of load remains on default service. Furthermore, conducting a solicitation will impose additional costs on customers (e.g., the costs of developing and conducting RFPs and third party costs) without allowing Duquesne Light to avoid the majority of its costs related to offering hourly price service. Given the success of Duquesne Light’s current Large C&I retail access program, I do not believe that any changes are necessary or appropriate at this time.

VII. PennFuture’s Recommendation to Procure AECs through Ten and Twenty Year Supply Contracts Should be Rejected

Q. Michael Speerschneider on behalf of PennFuture recommends that Duquesne Light procure “a base amount of AEPS requirements” to be “fulfilled though ten and twenty year strips of AECs.”⁶² Do you believe this would be prudent?

A. No. It would not be prudent for Duquesne Light to inject long-term fixed default service supply commitments in the Company’s DSP VII supply mix at this time.⁶³ There is currently significant uncertainty about the amount of load that Duquesne Light will supply

⁶² PennFuture Statement No. 1, Direct Testimony, p.19.
⁶³ Duquesne Light witness Habberfield also addresses this issue in his rebuttal testimony.

1 in the future as the Default Service Provider, which is driven by the substantial
2 development of the competitive retail market in Duquesne Light's service area, the retail
3 market enhancements that are included in Duquesne Light's Plan, and future Commission
4 decisions regarding default service policy. This uncertainty is especially large when
5 considered over a ten or twenty-year time horizon, which corresponds to the durations of
6 the customer-backed contract guarantees that Mr. Speerschneider proposes be provided to
7 winning bidders. The longer the term of a fixed-price supply product that does not match
8 supply quantities with customer loads, the more likely it is that loads will deviate
9 substantially from expectations at the time that the product was procured, resulting in
10 costly scenarios for customers, such as those in which excess supply must be sold at a loss,
11 or those in which the product price is ultimately above market levels and the product
12 constitutes an unexpectedly high portion of the default service supply portfolio. As a
13 result, PennFuture's suggestion that AEC quantities for the ten and twenty year strips
14 could be procured for a portion of Duquesne Light's Alternative Energy Portfolio Standard
15 ("AEPS") obligation "based on a conservative estimate of Duquesne's load for those years
16 to avoid over-procurement as a potential result of load shifting"⁶⁴ is risky.

17 Long-term contracts pose several challenges in wholesale markets, which also
18 translate into risks for customers. Wholesale markets for electricity-related products with
19 longer delivery periods are less liquid.⁶⁵ Furthermore, the collateral required from
20 suppliers under such contracts to adequately reduce customers' financial exposure could

⁶⁴ PennFuture Statement No. 1, Direct Testimony, p.19.

⁶⁵ When asked in discovery to provide current prices for ten and twenty year contract strips for Tier 1 non-solar AECs, Tier 1 solar AECs, and Tier II AECs, PennFuture admits that to its knowledge there are no such products available on the market. PennFuture discovery response to Duquesne Light Set I-14.

1 become large and costly, and these contracts may increase the likelihood of supplier
2 default. The lack of transparent long-term forward market AEC prices adds additional
3 uncertainty for suppliers in developing price offers, for regulators in evaluating price
4 offers, and for default service providers in developing collateral requirements to protect
5 customers from financial exposure associated with supplier default. In addition, inclusion
6 of contracts with longer delivery periods increases the risk that contract costs will be well
7 above future market AEC price levels, potentially for long periods of time.⁶⁶

8 In sum, Mr. Speerschneider attempts to justify his proposal for Duquesne Light to
9 engage in long-term AEC contracts on the basis that this will reduce the risks that
10 renewable energy developers and their investors otherwise would bear, but Mr.
11 Speerschneider ignores the fact that under his proposal these renewable energy risks would
12 be shifted to Duquesne Light's customers for them to bear instead.

13 Finally, it is worth noting that in a December 16, 2011 Commission Order in the
14 Retail Markets Investigation, the Commission recommended that the use of long-term
15 contracts be limited in future default service plans:

16 [T]he Commission continues to recommend the following:...that EDCs
17 limit the proportion of long-term contracts that make up their default
18 service plan energy portfolios, and consider using already existing long-
19 term contracts from previous or presently effective default service plans.⁶⁷
20

21 **Q. On page 2 of his testimony, Mr. Speerschneider states that, "It is reasonable to**
22 **assume that any legislation that envisions fundamental changes in the EDC's role as**

⁶⁶ On a related note, for example, implementation of the Public Utilities Regulatory Policy Act during the 1980s and 1990s burdened electric utilities and their customers with long-term contracts at prices established well above their actual avoided cost.

⁶⁷ *Retail Markets Investigation Order*, December 16, 2011, p. 19.

1 **default service provider would acknowledge the existence of these contracts and**
2 **include a transition evaluation proceeding to examine treatment of these obligations.”**

3 **Please respond.**

4 A. This statement is speculative at best. The Company cannot predict what terms would be
5 included in such legislation and does not have reason to believe that potential legislation
6 fundamentally changing the EDC’s role as default service provider would include express
7 provisions addressing existing obligations, and importantly who would bear the cost
8 associated with existing obligations.

9
10 **Q. How do you respond to PennFuture’s claim that today’s relatively low AEC values**
11 **will switch quickly to relatively high credit values as the market becomes under-**
12 **supplied?**⁶⁸

13 A. Predicting future electricity and AEC market prices ten and twenty years into the future is
14 inherently uncertain and speculative. Because we do not know what future load levels will
15 be, nor what fuels prices will be – to say nothing of changes in technology and
16 environmental requirements – investments in long-lived generation assets or utility
17 contracts are inherently risky. We can “centrally plan” these decisions, and impose the
18 risks on retail customers, but we should not be surprised when things turn out badly.

19 Furthermore, even if PennFuture’s claim about future AEC prices is correct, then it
20 would be reasonable to assume that any prices obtained for long-term contracts to provide
21 AECs would reflect this AEC price expectation. There is no reason to believe that bidders

⁶⁸ PennFuture Statement No. 1, Direct Testimony, p.11.

1 in any long-term AEC solicitation would bid a price that does not reflect the value that the
2 bidders believe they could otherwise achieve by selling their AECs in the market in the
3 future.

4
5 **Q. Mr. Speerschneider states that the Company did not consider long-term contracts for**
6 **AECs in its DSP VII. Did the Company consider long-term contracts for AECs in**
7 **any prior DSP proceedings?**

8 A. Yes. In its DSP V proceeding at Docket No. P-2009-2135500, Duquesne Light proposed
9 to procure output and related AECs from solar facilities and Pennsylvania Tier I facilities
10 through 20-year contracts.⁶⁹ RESA opposed the Company's plan to acquire output and
11 associated AECs through 20-year contracts arguing that the 20-year term was too long and
12 would cause a disconnect with future market prices.⁷⁰ Therefore, the Company has not
13 only considered but proposed procuring long-term, 20-year AEC contracts in a prior
14 proceeding, and this proposal was opposed by another party.

15
16 **Q. But doesn't Duquesne Light need to procure a long-term contract in order to comply**
17 **with Act 129?**

18 A. No. As I stated in my direct testimony, I believe that Duquesne Light's Plan is consistent
19 with the requirements of Act 129, even though Section 2807(e)(3.2) contemplates the

⁶⁹ Duquesne Light Petition for Approval of Default Service Plan for the Period January 1, 2011 through May 31, 2013, Docket No. P-2009-2135500, October 8, 2009, Duquesne Light Statement No. 2, Direct Testimony, pp. 22-24.

⁷⁰ Duquesne Light Petition for Approval of Default Service Plan for the Period January 1, 2011 through May 31, 2013, Docket No. P-2009-2135500, December 21, 2009, RESA Statement No. 1, Direct Testimony, p. 25.

1 possible inclusion of “long-term” contracts with a term of more than four years. While I
2 am not an attorney, my understanding is that Act 129 requires a prudent mix of spot, short-
3 term and long-term contracts, but does not necessarily mandate the use of long-term
4 contracts. In fact, Duquesne Light’s current default service plan (DSP VI) does not
5 include a long-term (i.e., four-year or more) contract. Neither did Duquesne Light’s
6 approved DSP V plan. Yet both DSP VI and DSP V presumably were considered to be in
7 compliance with Act 129. Furthermore, Duquesne Light recognizes that, in its Default
8 Service End-State Order in the Investigation of Pennsylvania’s Retail Electricity Market,
9 the Commission indicated a preference for product mixes that generally consist of shorter-
10 term products than the products in the existing product mixes, rather than longer-term
11 products.⁷¹ As a result, I do not believe that it would be advisable to inject long-term
12 default service supply commitments in the Company’s DSP VII supply mix at this time.

13
14 **VIII. Conclusion**

15 **Q. Do you have any further comments regarding your responses to RESA’s testimony?**

16 A. Yes. I note that the Company sent RESA the Company’s Set I discovery (consisting of 14
17 questions) on July 17, 2014. Pursuant to the discovery rules adopted in this proceeding,
18 RESA’s responses were due on July 28, 2014. However, Duquesne Light did not receive
19 answers to 13 of the 14 questions contained in Set I until July 31, 2014, the day before

⁷¹ “Should legislative efforts fall short, we will consider an alternative shorter-term product that is more reflective of market conditions than the currently-offered default service products.” (Investigation of Pennsylvania’s Retail Electricity Market: End State of Default Service, Docket No. I-2011-2237952, Order entered February 15, 2013, p. 41.)

1 Rebuttal Testimony was due. In addition, the attachments to one of the responses have not
2 yet been received. Due to the lateness of the responses, the Company has not had
3 sufficient time to fully evaluate the responses and respond to them in its Rebuttal
4 Testimony. Therefore, I note that the Company may submit further testimony to address
5 issues related to RESA's late-served discovery.

6

7 **Q. Does this conclude your rebuttal testimony?**

8 **A. Yes, at this time.**

Exhibit NSF-2

*Petition of Duquesne Light Company For Approval of Default Service Plan
For The Period June 1, 2015 Through May 31, 2017
Docket No. P-2014-2418242*

**Responses of the Retail Energy Supply Association
To Interrogatories of Duquesne Light Company
Set 1 – Question 3**

*Submitted by: Richard J. Hudson, Jr.
Pennsylvania State Chairman for the Retail Energy Supply Association
Director of Regulatory and Legislative Affairs for ConEdison Solutions*

3. Page 3, Line 19, through Page 4, Line 3, of RESA Statement No. 1 states, “For residential customers, I recommend a blend of 6-month and 3-month full requirements procurement contracts. For small commercial customers, I recommend the same procurement plan as residential customers.” However, the text on Page 13, Line 9, through Page 14, Line 2, of RESA Statement No. 1 appears to indicate that, for both the Residential and Small C&I classes, RESA witness Hudson is proposing to replace the 12-month contracts with delivery during December 2015 – November 2016, representing 50% of the supply, with six month contracts, and then to replace the 12-month contracts with delivery during December 2016 – November 2017, representing 50% of the supply, with 3-month contracts (with no deliveries scheduled after May 2017); this would imply that the other 50% of the Residential and Small C&I supply still would be supplied by 12-month contracts, and the mix of products at the end of the DSP VIII period would consist of a blend of 12-month and 3-month contracts, not a blend of 6-month and 3-month contracts as RESA witness Hudson indicates on Page 3, Line 19, through Page 4, Line 3, of RESA Statement No. 1.
- a. In light of this apparent discrepancy, please describe in detail RESA’s proposal regarding procurement dates and product delivery periods for the Residential and Small C&I classes.

RESA RESPONSE:

RESA witness Hudson is advocating for a blend of 12-month, 6-month, and 3-month procurement contracts. RESA recommends that two of Duquesne’s proposed 12-month contracts be removed from the plan and replaced with two 6-month contracts and two 3-month contracts, which will also eliminate the overhang period that would extend the plan to November 2017, six months past the plan period. RESA’s recommended changes to Duquesne’s proposed procurement plan for residential and lighting customers are detailed beginning on page 13, line 9 of Mr. Hudson’s direct testimony. RESA would utilize the same procurement schedule (with

separate bidding) for Duquesne's Small C&I default service customers. Please see the Gantt Chart provided in response to 1-b, below, for more details.

- b. Please provide a Gantt Chart depicting RESA's proposed procurement plan for the Residential and Small C&I classes, including procurement dates and product delivery periods.

RESA RESPONSE:

Please see RESA Attachment RJH-DLC-1.

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Set 1**

*Submitted by: Richard J. Hudson, Jr.
Pennsylvania State Chairman for the Retail Energy Supply Association
Director of Regulatory and Legislative Affairs for ConEdison Solutions*

5. Referring to page 3, lines 18-19 of Mr. Hudson's direct testimony:

- a. Define what Mr. Hudson means by "a more market-based default service supply portfolio"?**

RESA RESPONSE:

The phrases "market-based" and "market responsive" were used interchangeably and were intended to convey the same concept. These phrases are intended to convey that certain default service products better reflect contemporaneous market prices and conditions than others. Although both a long-term contract and a short-term contract can be considered "market based" if derived through a competitive procurement process between a willing buyer and a willing seller, a shorter-term contract will be more responsive to and reflective of current market prices and conditions.

- b. Define what Mr. Hudson means by "a more market-responsive default service supply portfolio"?**

RESA RESPONSE:

See response to Question 5A.

- c. In Mr. Hudson's opinion, are both necessary to support retail competition? Explain your answer.**

RESA RESPONSE:

See response to Question 5A.

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- 11. Referring to page 12, line 25, through page 13, line 1 of Mr. Hudson's direct testimony, define what Mr. Hudson means by the words "progression to a more market responsive procurement mix."**

RESA RESPONSE:

A more market responsive procurement mix would be one that incorporates shorter term default service supply products, such as the 3-month and 6-month products that RESA recommends.

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14. **Reference page 10, lines 15-24, page 11, lines 1-10, page 13, lines 9-23, and page 14, lines 1-2 of Mr. Hudson's direct testimony.**
- a. **Does Mr. Hudson believe that having a greater degree of price stability in the residential default service rate should be considered a relative benefit when assessing the merits of the different default service plans proposed in this proceeding?**

RESA RESPONSE:

Mr. Hudson acknowledges that the Commission may choose to consider price stability as one of the factors used to evaluate a default serve procurement plan.

- b. **Unless the answer to part (a) is that Mr. Hudson believes that having a greater degree of price stability in the residential default service rate should not be considered a relative benefit when assessing the merits of the different default service plans proposed in this proceeding, please provide all workpapers, electronic files (with formulas intact), assumptions and calculations that Mr. Hudson utilized to compare the degree of price stability in the residential default service rate under RESA's proposed plan versus under Duquesne Light's proposed plan.**

RESA RESPONSE:

Mr. Hudson does not have additional workpapers or documents, other than the proposals, testimony and discovery in this proceeding.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Duquesne Light Company :
For Approval of Default Service Plan :
For The Period June 1, 2015 : Docket No. P-2014-2418242
Through May 31, 2017 :

**CITIZENS FOR PENNSYLVANIA'S FUTURE'S RESPONSE TO DUQUESNE LIGHT
COMPANY'S FIRST SET OF DISCOVERY REQUESTS**

14. Please provide current prices for ten and twenty year contract strips for Tier I non-solar AECs, Tier I solar AECs, and Tier II AECs.

To PennFuture's knowledge there are no such products available on the market. These prices would be determined through competitive solicitations/auctions offer by Duquesne Light and other EDCs.